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Access for Infants and Mothers (AIM) Program – Audit of Contra Costa Health Plan for the 2005/2006 and 2006/2007 Contract Periods

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Managed Risk Medical Insurance Board

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

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Executive Summary – Findings

The Managed Risk Medical Insurance Board (MRMIB) requested that Mercer Government Human Services Consulting (Mercer), a part of Mercer Health & Benefits LLC, conduct an audit of Contra Costa Health Plan (CCHP), a current AIM Health Plan. The on-site audit was conducted at CCHP's Martinez, CA offices January 12, 2009 through January 13, 2009, and test work covered the 2005/2006 and 2006/2007 contract periods. Key findings from this audit are as follows:

- The Monthly Financial Reports submitted by CCHP capture enrolled members, transfers in/out and retro cancels. It appears that some corrections to these reports were made during the MRMIB AIM reconciliation that was performed in 2008. These findings were all appropriately reflected/settled on the April 2008 Monthly Financial Report. Therefore, no additional funds need to be recouped or paid to the health plan in relation to those errors.
- Mercer noted that there were no exceptions from the universe of 162 mothers newly enrolled with CCHP. All members did receive services. As noted above, some corrections were already made by MRMIB staff in their reconciliation work. Therefore, those items were not considered errors for purposes of this audit.
- CCHP recognizes all AIM revenue on a cash basis (i.e., as payments are received). However, they recognize expenditures on an accrual basis (i.e., as expenses are incurred). CCHP may want to consider recognizing their revenue from the AIM program on a deferred basis, to better match revenue with the related expenditures for this program.
- Rate Development Templates (RDTs) were prepared in accordance with MRMIB's instructions. The only issue noted in the RDTs was that most of the newborn costs were included in with the Mother's costs. This is a function of the way the hospital and physician claims are submitted by providers. For future RDTs the health plan should ensure they appropriately categorize the newborn costs with the newborn reported expenditures on the RDT.
- CCHP pays 70 percent of billed charges for all hospital, professional and ancillary services provided to their AIM members by Contra Costa County providers. In contrast, the average ratio of payments to charges for non-County providers is

approximately 42.8 percent for the study time period. For the two-year audit period more than two-thirds of all expenditures for CCHP's AIM program were related to non-County providers.

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Introduction

MRMIB requested Mercer to conduct a limited scope audit of CCHP, a current AIM Health Plan for the 2005/2006 and 2006/2007 contract periods.

On December 4, 2008, CCHP was advised of the upcoming audit by MRMIB. On December 9, 2008, Mercer sent a letter to CCHP, outlining the scope of the audit and the preliminary data request. Mercer representatives were on site at CCHP's Martinez, CA offices January 12, 2009 through January 13, 2009. CCHP representatives were well prepared and responsive during the audit. Chris Giles, Health Services Accountant, facilitated the audit on behalf of CCHP.

The remainder of this document summarizes the audit objectives, approach and findings.

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Audit Objectives

The specific objectives were as follows:

- Through test work on 2005/2006 and 2006/2007 AIM mothers, confirm that AIM mothers received services during their enrollment
- Confirm that CCHP has appropriately accounted for transfers in/out and retroactive disenrollments, in the Monthly Financial Reports submitted to MRMIB for the 2005/2006 and 2006/2007 contract periods
- Determine CCHP's loss ratio and net profit for the 2005/2006 and 2006/2007 contract periods
- Calculate any overpayments and underpayments arising from the audit of the contract periods
- Determine the source of information CCHP uses to complete their RDT
- Determine how newborns of AIM mothers are accounted for in financial reporting and in the RDT
- Determine the basis on which CCHP reimburses their providers
- Verify the database CCHP uses to maintain the listing of mothers enrolled, per Maximus

Mercer developed audit procedures to support the objectives of the audit. Through discussion with CCHP and MRMIB, it was agreed that the Health Plan's entire enrollment for the two-year period would be subject to test work (as opposed to sampling).

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Audit Approach and Findings for Each Objective

Mercer's approach and findings for each audit objective follow.

AIM Mothers Receipt of Service Test Work

Approach:

Mercer first had to identify the universe of mothers newly enrolled with CCHP during the two-year period. The universe was identified to be mothers who were enrolled with CCHP and a corresponding payment made during contract year 2005/2006 or 2006/2007. These mothers were summarized in a set of files sent to Mercer from Deborah Simmons of MRMIB.

The test work consisted of a claims review and comparison to the Monthly Financial Reports, prepared by CCHP and submitted to MRMIB. Mercer requested a complete claims history for each member along with a hard-copy of at least one paid claim for each member. A sub-sample of claims were then selected to trace the reported payment amounts through the remittance advice and ultimately to the bank statement, to see that a payment was actually made for the claim. In addition, a sub-sample of claims were traced back to the provider contracts to ensure that the amount paid was calculated in accordance with contract provisions. If the mother was terminated, transferred in or out and appropriately recognized on the Monthly Financial Report, this was not considered an error, even if no services were provided.

For each claim, the mother's name was first verified with our sample set. If the name was not an exact match, the patient's AIM identification number and birth date were used for verification. The patient name, date of service and claim amount was then verified with the remittance advice to support that the remit was appropriate documentation of payment for the given claim. In the case of a payment to a Contra Costa County provider, Mercer traced the remittance advice/payment amount to a general ledger entry to ensure the expense was incurred and recognized by the health plan.

Findings:

Of the 162 AIM members subject to the test work, Mercer noted the following:

- All members were either provided a service or had already been reflected as repaid through a monthly Financial Report.
- Therefore, no recoupment from CCHP is necessary based on the test work.

Monthly Financial Reports

Approach:

Mercer requested copies of all financial reports submitted to MRMIB for the 2005/2006 and 2006/2007 contract periods. New mothers, transfers in/out and retro cancels were compared to a report received directly from MRMIB/Maximus. Mercer also performed a recalculation of the amounts reported.

Findings:

The Monthly Financial Reports captured enrolled members, transfers in/out and retro cancels. We found no exceptions to information reported in the Monthly Financial Reports, although it appears that some corrections were made during the MRMIB AIM reconciliation that was performed in 2008. That reconciliation covered the time period from July 1, 2004 through October 31, 2006. The result of that audit was $46,685 of charges (net errors) related to nine different errors. These findings were all appropriately reflected in the April 2008 Monthly Financial Report. Therefore, no additional funds need to be recouped or paid to the Health Plan in relation to those errors.

Loss Ratio and Net Profit

Approach:

Mercer requested that CCHP prepare income statements for the 2004/2005, 2005/2006 and 2006/2007 contract periods, using the California Department of Managed Health Care Annual Reporting forms. We reviewed these income statements with George Washnak, Controller and Chris Giles, Health Services Accountant.

Findings:

Reported financial information is as follows:

	2004/2005	2005/2006	2006/2007
Total Revenues	$933,675	$1,165,847	$802,868
Medical Expenses	$946,343	$958,786	$938,097
Administration	$46,710	$27,513	$15,066
Net Income (Loss)	($59,378)	$179,548	($150,295)
Profit (Loss) Ratio	(6.36%)	15.40%	(18.72%)
Administrative Cost Ratio	5.00%	2.36%	1.88%
Medical Cost Ratio	101.36%	82.24%	116.84%

CCHP recognizes all revenue as payments are received. However, they recognize expenditures on an accrual basis. CCHP may want to consider recognizing their revenue from the AIM program on a deferred basis, to better match revenue with the related expenditures for this program. The revenues reported for Contract Year 2006/2007 did not include any of the risk-sharing payment received from MRMIB for calendar year 2007. Approximately $231,000 was paid by MRMIB to CCHP in accordance with the risk-sharing provisions of the contract related to dates of service in Calendar year 2007. Payment was made in the fall of 2008. Therefore, it is likely that the loss reflected above for the Contract Year 2006/2007, would actually be less than is reported. However, the exact amount applicable to the specific 2006/2007 contract period cannot be ascertained.

We noted some reasonably large discrepancies between the expenditures reported on the Income Statements versus those reported as base data in the 2008/2009 RDT submission. Specifically, the total medical expenditures per the Income Statement for 2005/2006 and 2006/2007 ($958,786 + $938,097) was $1,896,883. Mercer confirmed with CCHP that this information is tied directly to their general ledger. However, the amount reported on CCHP's RDT for this same time period for medical expenses was $2,444,601. The explanation for this differential is as follows; CCHP books all claims for their County providers (Contra Cost Regional Medical Center and the Contra Costa Clinics and Federally Qualified Health Centers, including all professional staff) to their general ledgers at 57 percent of billed charges. But, at the end of the year the County calculates the true Cost-to-Charge Ratio (CCR) for the year. This final CCR (70 percent) is what claims are valued at in the claims system, but no adjustment was ever made to the amounts originally booked to CCHP's general ledger. We were able to verify this situation. *Note: see further discussion of the information contained in the RDT in the next section.*

The administrative expenditures reported for the two-year period on the Income Statements ($27,513 + $15,066) was $42,579. Mercer verified with CCHP that these amounts tied to their general ledgers. The amount reported on the RDT for administrative expenses was $375,125. The explanation for this differential is as follows; CCHP books a flat per member amount of $27 monthly for AIM administration. This is

how the general ledger amount was booked. However, at the end of each year the County prepares a detailed cost report that includes all administrative costs actually incurred for all of their operations. The $375,125 amount included in the RDT represents the AIM Program operations' share of the total administration. The County allocates the administrative costs based on the distribution of non-administrative program expenditures among the County's Health Department's operations (which includes CCHP).

Information CCHP Uses to Complete the Rate Development Template (RDT)

Approach:

Mercer reviewed CCHP's contract year 2008/2009 RDT (base data from 2005/2006 through 2006/2007). In addition, we interviewed George Washnak, Controller and Stacey Lampkin, CCHP's consulting actuary, who were able to walk us through the overall process utilized to complete RDTs.

Findings:

Schedule Two of the RDT (Revenue, Expense and Utilization Statement) was prepared by using CCHP historical AIM claims data. The base period used was July 1, 2005 – June 30, 2007, with claims run-out through September 30, 2007. A small amount of Incurred but Not Reported (IBNR) experience was added to paid claims to complete the expenses. The amount added for the IBNR was 2.4 percent. This completion percentage is reasonable. We also noted the following:

- Most newborn days/costs were included in the mother's inpatient expense categories.
- Approximately 23 percent ($558,307) of all medical expenditures reported for AIM members in the RDT was related to just three members. Mercer discussed these three cases with Cindy Shelby, Claims Manager. We verified that all costs were related to AIM members and services, and were therefore appropriate for inclusion in the RDT.
- The total historical costs reported in the RDT were generally very consistent with the total population claims history report that the plan made available to us. Therefore we can conclude that in total the amount reported in the RDT Schedule Two were reasonable and appropriate.

Schedule Three of the RDT (Trend Assumptions) includes annual trends to be applied to the historical data. Cost trends were based upon analysis of historical non-Medicare claims data for the health plan, as well as national trends. We noted the following regarding annualized trend rates:

- Annualized unit cost trend rates range from 3.4 percent to 5.8 percent.
- Annualized utilization trend rates range from 0.0 percent to 4.0 percent.

The trend figures submitted in the RDT are reasonable.

Schedule Four (Projected Health Care Costs and Proposed Rates) is largely calculated cells, and/or a summary of claims distribution that was developed from historical data. Schedule Four also includes Administration and Profit/Risk/Contingency load factors. We noted the following regarding Schedule Four:

- The Administrative load percentage calculated in the RDT was 13.0 percent.
- The Profit/Risk/Contingency included in the RDT was 2.0 percent.

The Profit/Risk/Contingency load included in the RDT is reasonable. The Administration load is higher than what would normally be included for this type of a program; however, this is largely driven by the very small size of the CCHP AIM program.

Accounting for Expenditures Related to Newborns of AIM Mothers

Approach:

Per the CCHP contract the "State shall pay for infants born to subscribers who enroll in the program on or after July 1, 2004, through the Contractor's contract with the State for Healthy Families Program" (Exhibit B, I. B. 4). Accordingly, limited expenses related to newborns are applicable to the AIM contract. The following services provided to newborns of AIM mothers would be covered under the AIM program: newborn examinations and nursery care while the mother is hospitalized, and coverage of participation in the statewide prenatal testing program administered by the State Department of Health Care Services, known as the Expanded Alpha Feto Protein Program. During our sample test work, Mercer looked for evidence of newborn claims and how they were handled. In addition, we discussed CCHP's process for handling newborn claims with Cindy Shelby, Claims Manager.

Findings:

The CCHP staff members were aware of the change of how newborns are to be accounted for, effective July 1, 2004. Their claims processing system/procedures appeared to appropriately split the newborn claims between the AIM and Healthy Families Program. We found only allowable claims for newborns included in the claims histories of AIM mothers. In addition, the newborn expenditures included in the RDT appeared reasonable.

Basis on Which CCHP Reimburses Their Providers

Approach:

Mercer requested CCHP to provide narrative write-ups documenting their approach to developing, paying and reconciling payments, including capitation payments to

providers. While on site, Mercer discussed this topic with George Washnak, Controller, as well as other CCHP staff members.

Findings:

CCHP considers the AIM program to be a "Commercial" product. They have two contracted provider networks: the County FQHC Health Center Network and the Community Provider Network (CPN). CCHP has multiple fee schedules for claims payment. Many providers have contracts that reimburse at the Medi-Cal Fee Schedule and at a Commercial Fee Schedule. Some contracted providers are reimbursed at a percentage of billed charges per CCHP's commercial contracting guidelines. Non-contracted hospitals are reimbursed at Medi-Cal adjusted rates (i.e., either Medi-Cal Fee Schedule or percentage of billed charges). CCHP does not use capitation to pay providers for the AIM program.

As discussed previously in this report, CCHP pays their Contra Costa County providers at their actual CCR. Over the audit time period the actual CCR was 70 percent. This means CCHP pays 70 percent of billed charges for all hospital, professional and ancillary services provided to their AIM members by County providers. In contrast, the average ratio of payment to charges for non-County providers is approximately 42.8 percent for the study time period. For the two-year audit period more than two-thirds of all expenditures for CCHP's AIM program were paid to non-County providers.

Verification of Database CCHP Uses to Maintain Mothers' Enrollment

Approach:

CCHP provided a write-up summary of their approach for accepting, processing and reconciling enrollment information, and how members are assigned to providers.

In addition, Mercer reviewed the Monthly Financial Reports (invoices) submitted by CCHP to MRMIB for billing months July 1, 2005 through June 30, 2006, to verify the process/summary described by CCHP. We interviewed Pam Gomez, Supervisor of the Membership Maintenance Unit for additional information.

Findings:

AIM enrollment is received daily from Maximus by FTP file. The files are posted to a shared file folder with limited access. Then the enrollment information is transferred into an Excel file. The enrollment information is entered into the CCHP QICLink system by a Membership Maintenance Unit Clerk.

At the beginning of each month, the CCHP Finance Unit generates an AIM membership report related to current eligible AIM members and cancelled AIM members. Finance uses the information from QICLink to prepare the monthly invoice (i.e., the Monthly

Financial Report). The enrollment process and related activities for completion of the Monthly Financial Report appear appropriate.

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Mercer Health & Benefits LLC
3131 East Camelback Road, Suite 300
Phoenix, AZ 85016
602 522 6500

Consulting. Outsourcing. Investments.